

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 EB-11 FRB-03

INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-03 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 SEC-03 PA-04 PRS-01 USIA-15 L-03 H-03 DRC-01

/183 W

----- 081401

R 021757Z AUG 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2744

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 09903

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING AUGUST 2

BEGIN SUMMARY: THE POUND TRADED BETWEEN \$2.3940 (JULY 29)

AND \$2.3830 (AUG. 1) AGAINST THE DOLLAR THIS WEEK WITH AN

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EFFECTIVE DEVALUATION OF ABOUT 17 PERCENT. THE PRICE OF

GOLD WAS VOLATILE BUT MOVED STRONGLY UPWARD CLOSING AT \$160 ON THURSDAY (AUGUST 1), UP \$11 ON LAST THURSDAY'S CLOSE. THE U.K. STOCK MARKET HAS CONTINUED TO FALL REACHING A NEW 15-YEAR LOW THIS WEEK. THE GOVERNMENT, CBI AND TUC ALL EXPRESSED CONCERN ABOUT THE PROSPECT OF A WORLD RECESSION AT A MEETING OF THE NATIONAL ECONOMIC DEVELOPMENT COUNCIL (NEDO) ON WEDNESDAY. THE CBI'S LATEST INDUSTRIAL TRENDS SURVEY SHOWS A WIDESPREAD AND SHARP DECLINE IN BUSINESS CONFIDENCE IN THE U.K. END SUMMARY

1. THE POUND ROSE TO \$2.3940 ON MONDAY (JULY 29), FELL ON TUESDAY, ROSE AGAIN ON WEDNESDAY, AND FELL BACK TO CLOSE AT \$2.3830 ON THURSDAY, DOWN 80 POINTS ON LAST THURSDAY'S CLOSE. THE DROP AT THE END OF THE WEEK WAS ATTRIBUTED TO STRENGTHENING OF THE DOLLAR AND STERLING'S EFFECTIVE DEVALUATION ONLY CHANGED marginally. IN FACT THE EFFECTIVE DEVALUATION AGAINST SMITHSONIAN RATES NARROWED TO 16.81 PERCENT ON MONDAY AND WIDENED TO 17.06 PERCENT ON THURSDAY, COMPARED TO 17.35 PERCENT A WEEK AGO. GOLD ROSE TO \$158 ON MONDAY (JULY 30), FELL BACK ON TUESDAY, BUT ROSE AGAIN ON WEDNESDAY AND THURSDAY TO CLOSE AT \$160, THE HIGHEST LEVEL FOR ALMOST TWO MONTHS.

2. THE U.K. STOCK MARKET HAS CONTINUED TO FALL DUE TO FEARS OF HIGHER INTEREST RATES, ECONOMIC UNCERTAINTY AND DOUBTS OVER THE FINANCIAL SECTOR. THE STATEMENT BY DR. BURNS, HINTING THAT U.S. INTEREST RATES MIGHT GO HIGHER CAUSED A SHARP DROP IN THE GOVERNMENT SECURITIES INDEX. ON THURSDAY, AUGUST 1, THE FT 30-SHARE INDEX CLOSED AT 235.7, A 15-YEAR LOW.

3. LEADERS OF BOTH THE CBI AND THE TUC GAVE THE CHANCELLOR FULL BACKING AT THE LATEST MEETING OF NEDO IN HIS EFFORTS NOT TO TAKE SEVERELY DEFLATIONARY MEASURES IN THE U.K. AND TO ENCOURAGE OTHER NATIONS NOT TO DO SO AS WELL. ALL EXPRESSED CONCERN ABOUT THE PROSPECTS OF A WORLD RECESSION NEXT YEAR. WHILE AGREEING THAT INFLATION WAS THE MAJOR ECONOMIC PROBLEM FACING THE U.K. AND THE WORLD, ALL SIDES AT THE MEETING STATED THAT UNEMPLOYMENT AND THE UNDER-USE OF RESOURCES SHOULD NOT BE DELIBERATELY UNCLASSIFIED

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USED AS THE INSTRUMENT TO COMBAT INFLATION.

4. THE CBI, IN ITS LATEST INDUSTRIAL TRENDS SURVEY, PRESENT AN EXTREMELY GLOOMY PICTURE OF THE U.K. ECONOMY. CONFIDENCE HAS DETERIORATED VERY SHARPLY OVER THE LAST FOUR MONTHS DUE TO THE COMBINED EFFECTS OF RISING COSTS AND STRICTLY CONTROLLED PRICES ON THE CASH-FLOW, LIQUIDITY, AND PROFITABILITY OF COMPANIES. THE SURVEY ALSO

SHOWS A CONTINUING DETERIORATION IN INVESTMENT INTENTIONS AND SLACKENING OF NEW ORDERS FOR MANUFACTURING INDUSTRY. ON THE EXPORT FRONT, COMPANIES ARE BEGINNING TO SAY THAT THEIR GOODS ARE NO LONGER PRICE COMPETITIVE. HOWEVER, ON A MORE OPTIMISTIC NOTE, COMPANIES IN GENERAL APPEAR TO HAVE MAINTAINED A REASONABLE LEVEL OF ACTIVITY OVER THE PAST FOUR MONTHS. FURTHER ANALYSIS OF THE SURVEY FOLLOWS SEPTEL.

5. FORWARD STERLING WAS AT A VERY SMALL PREMIUM ON MONDAY AT ONE MONTH BUT WENT TO A DISCOUNT AT ALL MATURITIES DURING THE REST OF THE WEEK. THE DISCOUNTS WIDENED UNTIL WEDNESDAY, BUT NARROWED ON THURSDAY (AUGUST 1).

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INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

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R 021757Z AUG 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2745

INFO AMEMBASSY BERN

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	7/25	8/1	CHANGE
1 MONTH	0.12	0.14-1/2	UP 0.02-1/2
3 MONTHS	0.89-1/2	0.99	UP 0.09-1/2
6 MONTHS	3.43-1/2	3.28-1/2	DOWN 0.15

(ALL FIGURES IN CENTS)

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6. LOCAL AUTHORITY DEPOSIT RATES MOVED IN A MIXED PATTERN THIS WEEK.

	7/25	8/1	CHANGE
1 MONTH	12-7/8	12-15/16	UP 1/16
3 MONTHS	13-7/16	13-7/16	UNCHANGED
6 MONTHS	13-5/8	13-5/8	UNCHANGED

7. EURODOLLAR RATES FELL AT ONE MONTH, BUT ROSE AT THREE AND SIX MONTHS OVER THE WEEK.

	7/25	8/1	CHANGE
1 MONTH	12-7/8	13-1/8	UP 1/4
3 MONTHS	13	13-3/4	UP 3/4
6 MONTHS	13	13-7/8	UP 7/8

8. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 11-3/4 PERCENT ON FRIDAY, AUGUST 2.

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Message Attributes

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Draft Date: 02 AUG 1974
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Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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US Department of State
EO Systematic Review
30 JUN 2005

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TAGS: ECON, UK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005